Inherent.Com v. Martindale-Hubbell et al Doc. 24 Att. 1

EXHIBIT A

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970 M1 1 905 C 01 10/10/05
NOTIFY SENDER OF NEW ADDRESS
:INHERENT COM INC
781 BEACH ST STE 333
SAN FRANCISCO CA 94109-1245

BC: 94109124583 *2489-00022-18-07

HAWMSMM 97201
94109%1245

EXHIBIT B

CITY AND COUNTY OF SAN FRANCISCO - OFFICE OF THE TREASURER & TAX COLLECTOR

BUSINESS REGISTRATION CERTIFICATE

RENEW BY DATE	EXPIRATION DATE
02-28-2006	06-30-2006

CERTIFICATE NO.	LOC.	CLASS	DESCRIPTION
390955	001	07	OTHERS BUSINESSES

BUSINESS NAME	BUSINESS LOCATION
INHERENT INC	781 BEACH ST 333

TAXPAYER'S SIGNATURE: ____________

OWNERSHIP INHERENT.COM INC

DBA INHERENT INC

MAILING ADDRESS 781 BEACH ST #333

CITY - STATE SAN FRANCISCO CA 94109

DATE ISSUED: 08-23-2005

GEORGE W. PUTRIS
TAX ADMINISTRATOR

MUST BE POSTED CONSPICUOUSLY AT THE BUSINESS LOCATION

READ REVERSE SIDE. NOTIFY THE TAX COLLECTOR IN WRITING OF ANY CHANGE IN OWNERSHIP OR ADDRESS - P.O. BOX 7425, SAN FRANCISCO, 94120 - 7425

8101B 10206 (REV. 12/04)

EXHIBIT C

LAW OFFICES OF PATRICK E. CATALANO
A PROFESSIONAL CORPORATION

) OFFICE
CENTER
WAY, SUITE 740
)RNIA 92101-3644
)-3666
?33-0641

THE ABOVE)

SAN FRANCISCO OFFICE

781 BEACH STREET, SUITE 333
SAN FRANCISCO, CALIFORNIA 94109
(415) 799-8287
FAX (415) 447-0666

SENT VIA FAX
(937) 865-1211
July 13, 2005

hard Jacobs
e President Law
puty General Counsel
dsNexis
13 Springboro Pike
amisburg, OH 45342

Re: Inherent/LexisNexis

ar Mr. Jacobs:

s will confirm our telephone conference call on 7/12/05. The following is a chronology events;

isNexis Martindale-Hubbell ("MH") was approached by Debra Kamys of erent.Com, Inc. ("ICI") in late July 2004 to re-start discussions about an acquisition. s was prompted by the public announcement that HubbardOne, a competitor of ICI's, acquired by FindLaw (West), a competitor of LexisNexis Martindale-Hubbell's.

arly September 2004, MH requested a phone conference with ICI to discuss ICI's lucts and services and how to integrate the two businesses. On 10/25/04 (after orming an internal investigation), Tim Corcoran (VP, Large Law) of MH informed ICI MH had a "green light" to proceed with a partnership or an outright acquisition of ICI. eam of four from MH traveled to Portland, OR for in-person meetings with ICI onnel on November 1-2, 2004. Proposed workflows were discussed and ICI shared iled information about its products and services. On 11/19/04, Carlton Dyce (Sr. ctor, Customer Experience) informed ICI that MH had decided to "lead with an uisition model and fall back on a partnership model." Delays ensued until John ey (VP, IT) informed ICI that LexisNexis's acquisition of Interface Software was lized; MH was now free to focus on the acquisition of ICI. On 1/5/05, John R. sent an ail to ICI identifying MH's desire to "kick things into high gear" with the acquisition.

'/4/05, John R. sent Debra an e-mail identifying the reasons MH was pursuing the uisition. Another trip to Portland was planned for late February, and MH requested tional information and documents. On 2/15/05, Debra provided John R. with top- financials from ICI for 2003 and 2004. On 2/16/05, a more detailed breakdown of and 2004 financials was provided to Michael Little (Director, Program Manager). R. identified a need to re-work internal models as he'd believed ICI had performed r financially in 2004, but responded with "I agree that we should focus on the ard track" when Debra pointed out "I believe our main focus for this potential sition ought to be on what we're expected to do together rather than on what we done on our own in the past." More discussions were had wherein all agreed that ould perform well when utilizing MH's sales force for its products and services.

forward with the deal even after they had agreed and entered into a contract to purchase ICI's assets. This constitutes breach of contract!!

It is also important to note that the Letter of Intent, originally received from MH on 5/25/05, included a requirement that ICI not sell any products or services to "lawyers, law firms or bar associations or others acting on behalf of those types of customers" for the duration of the Due Diligence period. MH unilaterally terminated the contract on 6/28/05, so ICI was put in a position of having very low sales allowed for nearly five weeks. This has been extremely damaging to the business of ICI, as it is now very behind in collecting monies from its clients.

Furthermore, it is ICI's position that MH terminated the contract without merit and without interest in allowing ICI to remedy any concerns or problems. MH cited the reason that "the diligence work revealed to us facts and conditions that were not consistent with preliminary information provided to us before the diligence visit and our assumptions based upon that preliminary information." Phone calls identified three main areas of concern:

1. Too many versions of ColdFusion code running on ICI's servers;
2. Too many versions of Dynapsis code; and
3. Financial concerns

ICI's responses:

1. On 11/2/04, during MH's on-site visit with Michael L., Carlton D. and Peter P., MH asked for a breakdown of ICI's technologies. ICI shared with MH that it was currently using ColdFusion 4.5, ColdFusion 4.5.1, ColdFusion 5 and ColdFusion MX. Furthermore, on 5/17/05, Debra provided a document to Michael L. with a full breakdown of all server configurations. This document revealed that ICI runs ColdFusion 4.5.1, ColdFusion 5 and ColdFusion MX, which IS consistent with what MH learned during the Due Diligence visit.
2. Similarly, discussions with Debra and members of ICI's Software Development staff during the 11/2/04 on-site visit with Michael L., Carlton D. and Peter P. revealed that ICI does indeed have many versions of its Dynapsis code. Reference this question from MH, followed by ICI's response:

   Frequency of changes to the core code base?
   => The code base encounters fundamental changes about every six months. This includes integration of new, third party tools and also the addition/modifications of the server modules.
3. ICI's financial situation should not have played a role in MH's decision, because the transaction focused solely on MH's purchase of ICI's assets. In discussions with John E. via phone and during the on-site Due Diligence meetings in mid-June 2005, Debra shared that ICI was in open discussions with all creditors and that all creditors were willing to wait for payment until the first payment from MH was received (expected in late July 2005). Some creditors were willing to wait until the second payment was received in the fall of 2005 to receive full payment. Also of note is that ICI shared its 2004 financials with Michael L. and Carlton D. during their visit in February 2005.

Debra returned to Portland with the MH Letter of Intent and met with ICI's Board of Directors. A conference call was held on 6/2/05 with ICI's Board of Directors and Paul G., John E. and Richard J. from the LexisNexis/MH team. During the call, MH revised its offer amount for asset purchase to $780,000, with an expectation that this figure would be reduced by $80,000 due to ICI liabilities. The liabilities were defined as projects for which money had already been collected yet services have not yet been completely provided. As an example, a law firm who paid for one year of hosting in January 2005 would have a liability of 6 months' worth of hosting fees if MH assumed the contract in July 2005.

On 6/8/05, Debra sent John E. the full detail of ICI's 2004 financials, as well as the list of expected client liabilities with a July 2005 acquisition. The liability amount was identified to be approximately $60,000. Also sent were financials specific to the Outside Web Link ("O.W.L.") product used by Gibney, Anthony & Flaherty, which was projected to be packaged and sold to other immigration law firms.

On 6/9/05, Paul G. sent Debra a revised Letter of Intent containing edits from the 6/2/05 conference call. The amount for purchase was identified to be $780,000 with a reduction of approximately $80,000 for the liabilities as described above. ICI's Board of Directors made edits to the Letter of Intent, then signed and faxed it to Paul G. on 6/15/05. On 6/16/05, MH identified a need for a majority percentage of shareholders' signatures on the Letter of Intent and stated that the contract would be final and accepted by MH upon a majority of shareholders to sign. On 6/17/05, ICI obtained a signature from its 36% shareholder, which (when added to the signatures from the Board members) constituted the majority required. Paul G. stated "we have a deal" and therefore MH agreed to an immediate site visit.

During the visit after the agreement was finalized to purchase the assets of ICI by MH, ICI provided the MH team with three binders of information in response to their list requesting production of documents. Extremely sensitive information was shared, including corporate documents, company financials, client contact lists and employee salaries. Furthermore, detailed descriptions of products and services sold by ICI were shared, with MH having the opportunity to review code and coding practices in-depth while on-site. MH was also given two binders containing copies of every legal client's contract(s) with ICI; MH was very insistent on getting the copies of all contracts while on-site, even though the time to make copies placed a burden on ICI's staff. The burden was explained but MH was adamant that obtaining copies of all contracts was necessary. Each contract contains detailed information including client names and contact information, as well as pricing and contract expiration dates.

MH also conducted intense interviews with ICI's Network Operations staff, obtaining detailed descriptions of how ICI sets up and manages its network facility. One member of the MH team, Anthony Rodig, acted in a manner described by ICI staff as "arrogant and rude". In response to discussions with Anthony R., one member of ICI's staff resigned on 6/24/05 (Mark Holm). Mark H. explained that Anthony R. made it clear to him that he was not going to be needed once the asset purchase was completed and the transition began, so he resigned to protect himself. This left ICI in a precarious situation, as running the Network Operations Center is a two-person job and the remaining individual has identified his intent to resign soon if he doesn't get support. On 7/8/05, another ICI employee resigned (Kary Boothroyd). On 6/28/05 MH stated it would not go

Carlton D. and Michael L. returned to Portland for in-person meetings on 2/22 – 2/23/05. During those meetings, ICI provided detailed financial information covering the past 7 years as well as projections for the next 5 years. The *Dynapsis* product was reviewed in detail, with ICI's software development staff sharing back-end coding practices as well as the customer experience with the product.

On 3/24/05, John R. and Debra spoke via telephone; during this call, John R. shared MH's decision to NOT acquire ICI in its entirety. The focus changed to an asset purchase, and at this time all were focused solely on MH purchasing the right to use ICI's *Dynapsis* product. John R. shared that he believed the code was worth $400,000 to $700,000 to MH. During this call, a plan was made for Debra to fly to Phoenix during the LMA Conference in order to meet with Paul Gazzolo (COO) to discuss the asset purchase and to provide a demonstration of *Dynapsis*.

On 4/7/05, Debra presented *Dynapsis* to Paul G. Also present were Michael L. and Aaron Usiskin (Director, Client Development). During this meeting, all parties agreed that a revised model of MH acquiring ICI's code and clients would be adopted, and that MH would expect ICI to cease selling to the legal industry when all was complete with the sale. Discussions were held and expectations were set that MH would directly hire certain ICI employees after the sale, and that those employees would become part of the MH team in New Jersey or remotely.

On 4/29/05, Debra and Paul G. spoke via telephone; during this call, Paul G. shared that MH's Business Development team had "green-lighted" the deal but that John Lawler (CEO) wanted to meet Debra and see the *Dynapsis* presentation before providing final sign-off on the acquisition. During this call, Paul G. told Debra "You should definitely feel good about this." A plan was made for Debra to travel to New Jersey in late May 2005.

The visit to NJ included two *Dynapsis* presentations (one to several people, including some from the LexisNexis team in Dayton, OH, and another to John L. and approximately 8 others in the Executive Boardroom), and also included several meetings with others at MH to discuss implementation plans as well as operating plans post-acquisition. Debra shared her presentation suggesting a new Technical Product Division at MH with Aaron U., Carlton D. and Chris Whitmore (Market Planning). At the 5/25/05 off-site dinner meeting with approximately 10 members of the MH team, Paul G. presented Debra with MH's official Letter of Intent to acquire ICI's assets. The overwhelming attitude was celebratory, with congratulations and drinks shared all around.

On 5/26/05, a meeting with Debra, Paul G. and Michael L. was held in Paul G.'s office, with John E. and Richard Jacobs (LexisNexis attorney) attending via phone. At this time, the Letter of Intent was discussed in-depth and the amount offered for purchase was $375,000. Debra shared that ICI was expecting an offer in the range of $1.2 million and all agreed that MH would need to change the offer amount. In a one-on-one meeting with Paul G., a verbal commitment was made to Debra regarding direct employment with MH for herself post-acquisition. Employment for other ICI employees was discussed, but no commitments were made at this time.

Furthermore, both Debra and Charlie Van Rossen (ex-Chairman, ICI Board of Directors) asked Paul G. if there were any steps ICI could take to alleviate MH's concerns. Both were met with a resolute attitude that made it clear that MH had no intentions of working with ICI to remedy the alleged problems.

Overall, MH has irreparably damaged ICI by MH's breach of contract. Financial models were reviewed and approved by MH at several points throughout the process, and ICI was repeatedly given positive feedback. Furthermore, there were several occasions when MH identified its desire to move things forward quickly, yet delays occurred nearly every step of the way. ICI has had two key employees resign, along with its Chairman of the Board, due to circumstances related to the MH situation. Additionally, being asked to NOT sell to the legal industry for a period of five weeks has left ICI in a financially harmed position. ICI also feels at risk for future competition if it is able to continue its business model... ICI understands that MH still desires to have the products and services at issue in its own arsenal for sales; giving MH's team an intense look inside ICI's operation provided an unfair advantage that leaves ICI exposed. The bottom line is that MH breached the contract and allowed no attempts for ICI to remedy alleged problems, leaving ICI greatly harmed. ICI will not stand for this.

Unless a settlement is reached within five (5) days, a lawsuit will be filed. You brought to my attention the fact that you will be out of town soon.; regardless of your status, we must have a response no later than 7/18/05.

Very truly yours,

LAW OFFICES OF PATRICK E. CATALANO

By: ______________________
Patrick E. Catalano, Esq.

cc: Clients

c:/kl/inherent/Jacobs.ltr

EXHIBIT D

Interim Results 2005

Reed Elsevier
Interim Results
2005

Reed Elsevier

2005 Interim Results

Reed Elsevier

- Continuing improvement in market environment
- Innovation and investment pipeline delivering results
- Online offers significant further opportunities for growth
- Firmly on track to deliver 2005 targets

Interim Results 2005

Financial Overview

Mark Armour

Chief Financial Officer

Reed Elsevier

Adoption of IFRS and Benchmarks

Reed Elsevier

IFRS: Transition date 1 January 2004
IAS 39: Financial Instruments effective 1 January 2005

- 2004 figures restated and reconciled (as published February 2005)
- Benchmark adjusted figures amended:

Included (for first time):	Excluded (as before):
Additional pension expense	Acquired intangibles amortisation
Share option expense	Acquisition integration costs
Restructuring costs	Disposal gains / losses
Derivative financial instruments	Non crystallising deferred tax balances

- Reconciliation of old and new benchmarks

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Interim Results 2005

Adjusted Profit and Loss

Reed Elsevier

6 months to 30 June	2005 £m	2004 £m	2005 €m	2004 €m	% change constant
Revenue	2,368	2,263	3,457	3,349	+6%
Adjusted operating profit	461	451	673	668	+5%
Adjusted operating margin	19.5%	19.9%	19.5%	19.9%	
Net interest expense	(66)	(64)	(96)	(95)	
Adjusted profit before tax	395	387	577	573	+5%

Adjusted figures are stated before amortisation of acquired intangible assets, acquisition integration costs and disposal gains

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First Half Performance

Reed Elsevier

H1 organic revenue growth +3% — Full year target +5% (min)

- Good underlying performance across business
- Seasonality in Education and Health Sciences; H1 biennial exhibitions cycling out
- Growth momentum, particularly in online sales

H1 adjusted earnings +5% — Full year target +10% (min)

- Revenue seasonality and operational gearing
- Tight cost management
- Good contribution from recent acquisitions

H1 adjusted cash flow conversion 48% — Full year target +90% (min)

- Timing of subscription renewals and exhibition deposits
- Education sales and cash flow cycle

Good first half performance — On track for full year

Adjusted earnings growth stated at constant exchange rates

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